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April 14, 1997

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Federal Communications Commission
Office of Secretary

BY HAND DELIVERY

Mr. William Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, DC 20554

Re: CC Docket Nos. 96-262, 94-1, and 91-213
Access Charge Reform

Dear Mr. Caton:

This is to inform you that Catherine Sloan and Richard Fruchterman of WorldCom, Inc. and I met today with Tom Boasberg, Legal Assistant to Chairman Hundt, to discuss WorldCom, Inc.'s views on issues in this proceeding and reactions to the plan filed last week by AT&T, Bell Atlantic, and NYNEX. The attached handouts were used at the meeting. We are filing two copies of this letter with the Office of the Secretary.

Respectfully submitted,

David Sieradzki

David L. Sieradzki
Counsel for WorldCom, Inc.

DLS/jes

Enclosures

cc: Tom Boasberg

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

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March 24, 1997

William F. Caton
Acting Secretary
Federal Communications Commission
1919 M St., N.W.
Washington, D.C. 20554

**Re: CC Docket Nos. 96-262, 94-1, and 91-213
Access Charge Reform**

Dear Mr. Caton:

This is to inform you that, on behalf of WorldCom, Inc., I met today with James Schlichting, Chief of the Competitive Pricing Division, Common Carrier Bureau, regarding WorldCom's positions in this proceeding. In particular, we discussed the idea of imposing flat-rate access charges on interexchange carriers that are higher with respect to business lines than residential lines, while at the same time increasing subscriber line charges for most business customers but not for most residential subscribers. We discussed WorldCom's view that such a new, implicit cross-subsidy from business to residential customers would create economic inefficiencies and would raise legal problems under Section 254 of the Act. We also discussed WorldCom's view that if such an approach is taken, then the per-minute access charges that interexchange carriers pay with respect to business lines should be correspondingly lower.

I am filing two copies of this notice with the Office of the Secretary.

Sincerely yours,

David Sieradzki

David L. Sieradzki
Counsel for WorldCom, Inc.

cc: James Schlichting

WorldCom Response to
AT&T/Bell Atlantic/NYNEX Access Charge Reform
and Universal Service Proposal

WorldCom believes that the access charge reform and universal service proposal announced by AT&T, Bell Atlantic and NYNEX on April 5 has many positive elements that should be adopted by the Commission. However, WorldCom is concerned that several aspects of the proposal are either unsustainable as a matter of law or will not establish an appropriate competitive structure for access going forward. In addition, the proposal does not address the critical issue of ILEC pricing flexibility sought by the ILECs. WorldCom believes that the Commission should refrain from granting any pricing flexibility to ILECs that do not comply with the Telecom Act and the Commission's mandates to open their local markets to competition. Only when an ILEC can demonstrate its compliance the Act and the Commission's orders should the Commission begin to consider appropriate forms of pricing flexibility for that ILEC.

Positive Elements

- Fully funds universal service in rural areas
  - A rural LEC fund of approximately $1.64 B is established
  - A high cost fund of approximately $300 M is maintained for large LECs (the same level as exists today)
- Begins the process of access rate reductions and a shift of non-traffic sensitive costs to flat rate charges rather than usage charges
- Recognizes the ability of local competitors to use combinations of unbundled network elements to provide local service without the application of above cost ILEC access charges
- Recognizes that the existing interim transport rate structure should be made permanent

Items Needing Improvement

- Raising the business SLC to $8.00/mo. and adding a $2.00 **PSL charge to IXCs** for each business line served is a departure from cost-based rates. As such, these charges represent an implicit subsidy from business customers to residential customers that violates the Telecom Act's edict that all subsidies be explicit.

  A more sustainable approach would increase the PSL charge to IXCs for each residential line served to better reflect the costs incurred by residential users but not have a PSL charge for business customers whose costs are already fully recovered in the SLC. An alternative approach would retain the $2.00 PSL charge for business customers but offset that charge by further reducing the per minute access rates charged for serving business customers.

- The proposal to cap the **terminating access** rate at the rate for originating access does not reflect the way competition will develop in the access market. Neither originating nor terminating access will become competitive per se -- whoever provides the customer's local service will always be able to extract the highest legally permissible rate from other carriers seeking to access the customer. On the originating side, carriers can avoid over-priced access by themselves becoming the local service (or, more aptly, the full service) provider. However, there is no practical method today or in sight to avoid terminating access in a similar fashion. A carrier simply cannot become the local service provider for every telephone that its customers may choose to call.

  Terminating access must be priced at its forward-looking economic cost. To accomplish this the Commission can either conduct cost studies or can adopt the proxy for termination from the Commission's Interconnection Order. WorldCom has already agreed that CLECs should not be permitted to charge more for terminating local access than the relevant ILEC. The above cost revenues no longer recovered through terminating access rates should be placed on originating access, recovered through flat rate charges or originating CCL charges, and targeted for elimination.

  A way to instill competition for terminating access would be for the Commission to rule that LECs can use their interconnection agreements to terminate interexchange traffic. This would enable all LECs to compete for the terminating traffic of IXCs in a manner that is not dependent on a particular customer's local service provider. The market would force terminating access rates to forward-looking economic cost (or at least to the interconnection termination rate). In addition, the arbitrage threat created by a difference between the access termination rate and the interconnection termination rate would be eliminated.

- The AT&T/Bell Atlantic/NYNEX proposal is virtually silent on the issue of **pricing flexibility and further mandatory price reductions** for incumbent LECs. A market-based approach to access reform only works if local exchange markets are opened to competition. ILECs that block local competition are not entitled to flexibility and should face the prospect of significant access rate reductions through prescription. Only ILECs that open their markets to competition and experience the development of competition should be eligible to obtain appropriate measures of pricing flexibility. Used in this fashion, WorldCom believes that pricing flexibility and the threat of further mandatory price reductions are a valuable tools that the Commission can use to enforce ILEC compliance with its local competition orders. WorldCom set out a detailed approach to ILEC pricing flexibility in its the comments that it filed in this proceeding; it is an important part of the overall package.